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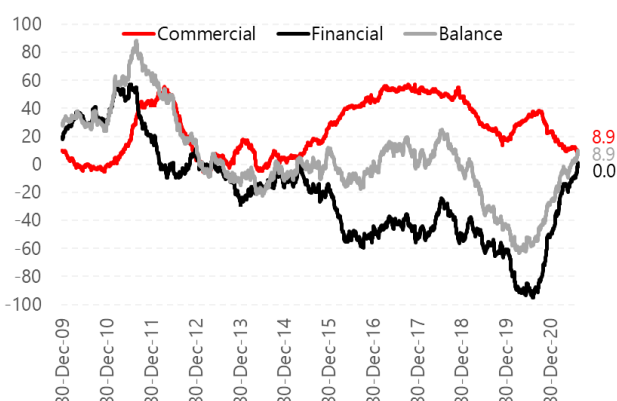
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A BUFFER, NOT A BOOST

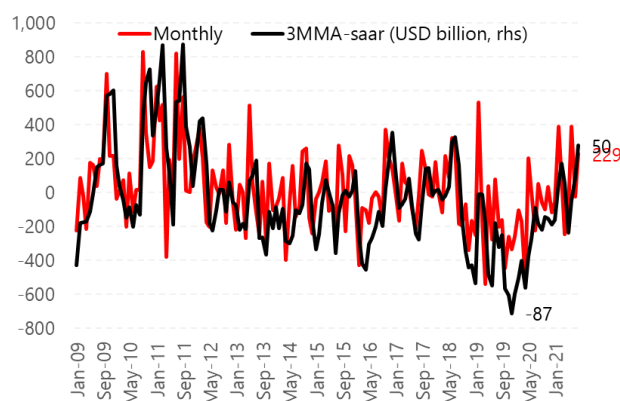
- **The Brazilian spot FX market recorded net inflows of US\$3.7 billion in August 2021, with US\$1.1 billion of net inflows in the commercial segment and US\$2.6 billion of net inflows in the financial segment.** Cumulatively, the Brazilian spot FX market has experienced net inflows of US\$21.1 billion on a year-to-date basis and net inflows of US\$8.9 billion on a 12-month basis through September 3.
- **In seasonally adjusted terms, the daily average for August 2021 indicates a similar pattern for the non-seasonally adjusted raw data (daily net inflows of US\$14 million in the commercial segment and daily net inflows of US\$216 million in the financial segment.)** Consequently, adjusting for the seasonal pattern, Brazilian spot FX flows in August continued to zigzag just as they did in 2Q21, causing the 3MMA-saar gauge to remain close to zero.
- **Initial figures for September 2021 indicate the balances in both segments may improve further this month,** in our view, but with the financial segment still running at a faster pace than the commercial segment.
- **The gap between the balance of shipped goods (“physical trade balance”) and the financial settlements (“financial trade balance”) expanded to US\$58.7 billion at the end of August 2021 from US\$52.5 billion on July 31 (on a 12M-to-date basis), thus reaching a new historical peak.** The move reversed the decline observed in July 2021, which was the first narrowing in this gap since March 2020, as the balance of financial settlements lost steam last month.
- **All in all, we think the recent seesaw pattern of Brazilian spot FX flows reinforces our assessment of the BRL’s limited room to register a continued and substantial strengthening** in light of skepticism regarding the path of Brazilian government debt over the medium term.

Figure 1. Spot FX Flows (USD billion, 12m)



Sources: Brazilian Central Bank, Santander.

Figure 2. Net Spot FX Flows (USD million, daily avg, sa)



Sources: Brazilian Central Bank, Santander.

The Brazilian spot FX market recorded net inflows of US\$3.7 billion in August 2021, with the US\$1.1 billion net inflows in the commercial segment smaller than the US\$2.6 billion of net inflows in the financial segment. Taking a look at the recent data for seasonally adjusted daily average flows of the different components of the spot FX market, we note the

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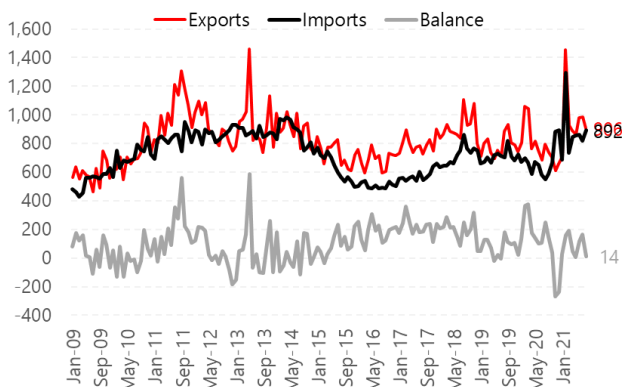
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anticipation of export proceeds has declined somewhat, while the anticipation of import payments has gained some steam. That is a combination that fits our assessment of the Brazilian economic outlook, as the backdrop for exports this year continues to be quite favorable—commodity prices remain high and external demand has positively surprised us lately, among other factors—while prospects for imports remain challenging, especially on the heels of activity indices that suggest an only gradual recovery and a still-weak and volatile BRL.

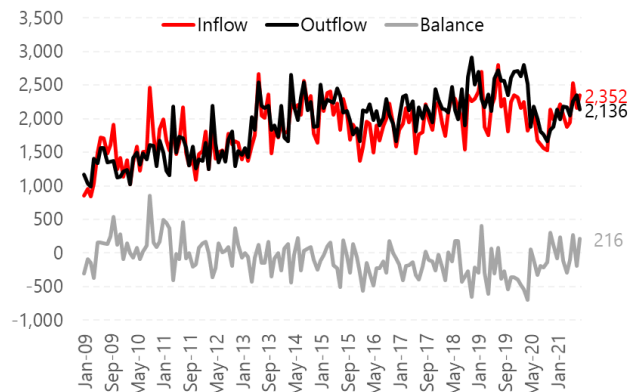
Regarding the financial segment, we think it is important to highlight the recent improvement in its net inflows last month, notwithstanding the resurgence of uncertainties regarding Brazilian fiscal risks. Nonetheless, the currency continued to register a fairly volatile performance in August 2021, which reinforces our view that there is limited room for continued strengthening of the BRL in the absence of concrete progress in the agenda for fiscal reform in the country.

Figure 3. Spot FX Flows – Commercial Segment
(USD million, daily avg, s.a.)



Sources: Brazilian Central Bank, Santander.

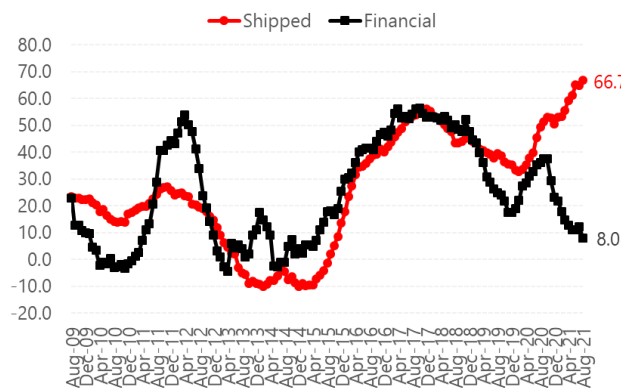
Figure 4. Spot FX Flows – Financial Segment
(USD million, daily avg, s.a.)



Sources: Brazilian Central Bank, Santander.

As for the gap we have observed between the balance of “shipped goods” and their financial settlements, this figure reached a new historical peak in August 2021 at US\$58.7 billion (on a 12M-to-date basis), just a month after it registered the first decline since March 2020. We think this gap could narrow based on our expectation of more interest rate hikes ahead, which could help to curb strong pressures on the BRL at critical moments, but we do not expect it to lead to a substantial strengthening of the currency anytime soon.

Figure 5. Trade Balance, Shipped vs Financial
(USD billion, 12m)



Sources: Brazilian Central Bank, SECINT, Santander.



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